



STAFF REPORT

FY 2004 BUDGET – DISCUSSION AND DIRECTION REGARDING IMPLEMENTATION OF BUDGET CORRECTION STRATEGIES (SCHEDULE B).

October 16, 2003

Honorable Mayor and Members of the City Council:

Summary: The FY 2004 Budget was adopted predicated upon no further adverse state action or continued economic weakness. Since that time, the state has adopted a budget which included the loss of revenues to local governments. Additionally, the City of Belmont has experienced continued weakness in the collection of certain tax receipts. The combined effect of these impacts is a \$475,000 per annum loss. The revenue loss appears to be on-going and requires corrective action. City Council had previously authorized the City Manager to take corrective action as authorized in FY 2003 Budget Corrective Action Plan - Schedule B should it be necessary. Prior to the City Manager taking action, staff believes it prudent to consult Council on the matter.

Background and Discussion:

With the adoption of the FY 2004 Budget and the knowledge that expenditures could exceed available resources in the event of an adverse state budget action and continued economic weakness, City Council authorized the City Manager to implement up to approximately \$600,000 in reduction strategies to address any long term, recurring budget gap. These reduction strategies were referred to as Schedule B in the FY 2003 Budget Correction Plan.

Since that date, the State adopted a budget which included a number of actions that were adverse to the City and Redevelopment Agency. In addition, the City has now confirmed that one of the prior corrective strategies cannot be implemented. Lastly, the local economy continues to perform poorly, particularly in the area of sales tax performance, thus weakness persists in tax collections. Please refer to Table 1 for the cumulative impact of these items.

Table 1 Schedule of Impacts			
Fund	Description	Notes	Amount
General Fund	Adverse State Action- Loss of 3 months of the Vehicle License Fee backfill.	This amount is considered a “loan”, and will supposedly be repaid to cities in 2006	\$291,000
	Adverse State Action- “Triple flip” cash flow disruption.	A 50% reduction in sales taxes for a period of five years in exchange for an equal amount from ERAF (property taxes) from the State to cities. Paid biannually versus monthly.	De Minimus
	FY 2004 Budget Correction Plan Adjustment- 2% franchise fee on water.	Authority over imposition of this fee has been disputed by the Water District through their legal counsel (San Mateo County).	\$59,000
	Local Economy Weakness- 10% loss exposure in sales tax.	Taxable sales in Belmont continue to show weakness. 2 nd Quarter 2003 results were negative indicating ongoing slump in sales in most major market segments. 50% of this amount is recognized at this time.	\$154,500
Subtotal City			\$474,500
Redevelopment Funds	Adverse State Action- One-time ERAF shift of \$135 million.	Distribution formula same as 2002-03, supposed to be one time.	\$290,786
Subtotal RDA			\$290,786
Total			\$765,286

Belmont staff has taken the following steps to address this budget gap. First, interim measures to reduce expenditures have been implemented. Second, staff has reviewed, updated and revised the Schedule B strategies which address the budget gap in a sustainable manner and can be implemented, to the extent practical, immediately after adoption. See Attachment A for the Schedule B strategies.

Interim Measures

As an interim measure, the City Manager has issued the following instructions to the departments:

1. All current and future personnel vacancies, until Council adopts a formal plan of action, shall remain open. Positions have been filled on a temporary, contractual or acting basis.
2. Discretionary spending associated with Schedule B strategies is to be deferred.

Budget Strategies

Council may recall that staff developed a set of alternatives that were ranked based on service level impact. Those reductions were aggregated into classes as follows:

- Category 1 Reductions with no impact to service levels
- Category 2 Reductions with modest impacts to service levels
- Category 3 Reductions with noticeable impacts to service levels

For the most part, the Category 1 & 2 reductions were previously implemented when Schedule A was adopted.

Council also adopted a set of principles, as provided for in Attachment B, that were used by staff in guiding the development of the original Budget Correction Plan and its most recent update.

Table 2 summarizes the budget strategies proposed by staff to deal with the current \$475,000 corrective action:

Table 2 Summary of Budget Strategies		
Strategy	Schedule	Amount
City Manager Recommend Package – “Above-the-line” Strategies	B	\$491,189
“Below-the-line” Strategies	B	\$173,188
	Subtotal	\$664,377
Alternative Revenues	C	\$25,000
Utility Users Tax	D	\$450,000
	Total	\$1,139,377

1. Schedule B Strategies-

With the implementation of Schedule B, Category 3 reductions will occur.

The attached Schedule B closely follows that provided to Council last year with the following noteworthy exceptions:

- The Work Furlough Program has been refined. Under the program employees will be required to take 32 hours of furlough time off. Side letters to the Memorandum of Understanding were executed with the POA, AFSCME and M/MCE bargaining units have been obtained. The program is shown as Attachment C.

- Funding has been restored for one Police Officer and one CSO position.
- SWAT Team participation has been suspended.
- The City-sponsored Annual Holiday party has been suspended and senior management intends to sponsor a holiday lunch instead.

Lastly, Schedule B has been bifurcated into two sections. The first section represents the City Manager's recommendation of reductions and totals \$491,000. These reductions meet the City impact of \$475,000. The second section, or "below-the-line" strategies, total \$173,000 and are optional. Council may consider swapping or trading these strategies for those "above-the-line" as long as the target correction remains at \$475,000 or more. In short, Council will have the option to customize the alternatives into a plan which best suits the community needs.

2. *Other Strategies-*

In addition to Schedule B, staff developed Schedule C and D. Schedule C raised \$25,000 in revenue by implementing code enforcement citations. Schedule D raised \$450,000 in revenue by implementing a 3% utility users tax on gas, electricity, water, sewer, phone and cable services. These schedules are included in Attachment A.

RDA Impacts

The state budget includes a \$290,000 one-time ERAF payment. The state law provides that if the RDA is unable to pay the amount due under ERAF, the City's General Fund is so obligated. While the RDA is in a position to manage a one-time payment, an on-going cost impact of this magnitude is a different matter and would require considerable discussion on the part of the Agency Directors. No action is required of the Agency Directors at this time.

Fiscal Impact:

Staff has calculated the target correction figure based on the Long Term Forecast. The target correction figure now stands at \$475,000 or 4% of operations. As indicated above, there are several reasons for the correction, including: a) the impact to the FY 2004 Budget from the State is known at \$0.29 million (General Fund portion only), b) the length of the economic downturn has been protracted and is likely to continue into CY 2004 for a total of \$0.15 million and c) the franchise fee on water of \$.06 million is prohibited by state law.

The budget dynamics for FY 2004 and beyond are still very fluid. Economic events could worsen and place additional pressure on the City forcing additional reductions. Conversely, the situation could turn for the better. In addition, the rates for retirement benefits for miscellaneous and public safety employees are just now being released. These rates, along with the increased health insurance and workers compensation premiums could have a substantial impact on the organization in the foreseeable future.

While staff believes it has a fairly clear picture of the economic impacts to the City's revenues and the major costs pressures facing the City's future expenditures, there is simply no way to predict the impact of an adverse state action, such as the VLF fee cut promised by Governor-

Elect Schwarzenegger, that could come in FY 2005. However, as part of the routine financial planning effort the City follows, these matters will be assessed and, if necessary, strategies will be developed to deal with the impacts.

Recommendation:

Staff suggests Council consider the following process:

1. Request a brief staff report on the matter.
2. Hear any testimony from the public on the topic.
3. Open discussion on the strategies amongst council members.
4. Review the \$491,000 in “above-the-line” strategies.
5. Make substitutions, if any, from “below-the-line” strategies or other alternatives as provided on Schedule C or D.
6. Adopt a package equal to or greater than \$475,000.
7. Direct the City Manager to implement the reduction strategies.
8. Amend the FY 2004 Budget as part of the Mid Year Review.
9. Vote on the motion.

Alternatives: With direction, send the matter back to staff for further consideration.

Public Contact: Staff has met with the City’s organized labor units to solicit input on the budget correction plan strategies.

A copy of this report has been forwarded to the Finance Commission.

Attachment:

1. Attachment A – Budget Correction Plan Strategies
2. Attachment B – Budget Correction Plan Principles
3. Attachment C – Work Furlough Program

Respectfully submitted,

Thomas Fil, Finance Director

Jere Kersnar, City Manager

Budget Correction Plan Principles

- Budget correction strategies will be developed in accordance with Council adopted financial policies.
- Consistent with the ranking process, budget correction strategies will be prioritized in the following order:
 - Costs reduction strategies that do not diminish present levels of service will be given first priority for implementation;
 - Proposals to raise existing revenues or implement new sources of revenues will be given second priority for implementation; and,
 - Alternative, reduced or eliminated service levels will be given third priority for implementation.
- Layoffs will be implemented only as a last resort.

FY 03-04 Holiday Furlough Program

Employees will be required to take 32 hours of furlough time off, over and above their regularly scheduled vacation time off, by June 30, 2004.

Employees may use paid time off in the following order to cover the furlough time off: 1) vacation; 2) compensatory time; or 3) borrow against future accruals up to and including time accrued as of June 30, 2004. Employees may also, at their option, elect to take time off without pay during this period. Employees with insufficient paid time off will be required to take time off without pay during this period.

Schedule A - Christmas and New Year's

- City administrative facilities (City Hall and Parks and Recreation Administration) will close during the period of Thursday, December 25 through Friday, January 2, 2004. Parks Maintenance, Public Works Maintenance, and Daycare will continue to operate during the administrative office closure period. Parks and Public Works Maintenance will adhere to Schedule B described below. Daycare employees will be required to take the equivalent number of furlough hours off on alternate days by June 30, 2004.
- The holiday closure period encompasses the City paid holidays of December 25 and January 1. The December 24/31 holiday will be designated December 31. Therefore a total of 3 City paid holidays will occur during this time period. The remaining 4 days (December 26, December 29, December 30, and January 2) will be designated furlough days.
- The City may require certain other employees to work a regular or partial schedule on one or more of the closure days (December 26, December 29, December 30, and/or January 2). Employees required to work during the holiday furlough will be required to take the equivalent number of furlough hours off by June 30, 2004.

Schedule B - Christmas, New Year's, Presidents Day, and Memorial Day

- Public Works Maintenance and Parks Maintenance employees who work a 4/10 schedule will be required to take 32 hours of furlough time off on days adjacent to regularly scheduled City paid holidays as follows:

Friday, December 26, 2003	10 hours off
Friday, January 2, 2004	10 hours off
Friday, February 13, 2004	10 hours off
Friday, May 28, 2004	2 hours off (work an 8-hour day)
- Parks Maintenance employees whose regularly scheduled day off is Friday will be required to take the following days off:

Monday, December 29, 2003	10 hours off
Monday, January 5, 2004	10 hours off
Tuesday, February 17, 2004	10 hours off

Tuesday, June 1, 2004

2 hours off (work an 8-hour day)

- The City may require certain employees to work a regular or reduced schedule on one or more of the holiday furlough days. Employees required to work on the holiday furlough days will be required to take the equivalent number of furlough hours off on alternate days by June 30, 2004.